DU PONT CANADA

annual report 1977

DU PONT CANADA

67th Annual Report 1977

Contents

Notice

The 67th Annual General Meeting of Shareholders will be held at the Head Office of the Company, 555 Dorchester Blvd. West, Montreal, Quebec on Friday, 28th April 1978 at 12:00 noon.

Nous serons heureux de vous envoyer, sur demande, l'édition française de ce rapport.

Highlights

	1977	1976 (Restated)*	% Change
SALES (Dollars in thousands)	$534 479	$458 051	17
NET INCOME (LOSS) (Dollars in thousands)	$ 7 622	$ (2 142)	
SELLING PRICE INDEX Manufactured Products (1968=100)	137	132	4
CONSTRUCTION EXPENDITURES (Dollars in thousands)	$ 16 679	$ 65 793	(75)
RESULTS PER COMMON SHARE			
CASH FLOW FROM OPERATIONS	$4.86	$ 2.52	93
EARNINGS (LOSS)			
By Quarter First	$0.17	$ 0.03	
Second	0.61	0.02	
Third	0.04	(0.15)	
Fourth	0.12	(0.19)	
Total for the year	$0.94	$(0.29)	
DIVIDENDS DECLARED	$ —	$ 0.20	

*See Note 1 to Consolidated Financial Statements, page 15.

DIRECTORS

Joseph A. Dallas
Director
E. I. du Pont de Nemours & Company
Elected 25th June 1971

A. Jean de Grandpré, Q.C.
Chairman and Chief Executive Officer
Bell Canada
Elected 17th April 1970

Henry J. Hemens, Q.C.
Counsel
Hemens, Harris, Thomas, Mason, Schweitzer & Montcalm
(Former Vice-President and Secretary
Du Pont of Canada Limited)
Elected 26th February 1971

David S. Holbrook
Consultant
Iron and Steel Industry
Elected 16th December 1966

D. Carlton Jones
President
Carlton Resource Management Limited
Elected 14th December 1973

John A. Klacsmann
Vice-President — International
E. I. du Pont de Nemours & Company
Elected 22nd August 1975

Franklin S. McCarthy
President and Chief Executive Officer
Du Pont of Canada Limited
Elected 19th December 1975

J. Edward Newall
Executive Vice-President
Du Pont of Canada Limited
Elected 30th April 1976

Robert J. Richardson
Chairman
Du Pont of Canada Limited
Vice-President — Finance
E. I. du Pont de Nemours & Company
Elected 25th June 1971

Roy L. Schuyler
Former Vice-President and General Manager
Organic Chemicals Department
E. I. du Pont de Nemours & Company
Elected 17th April 1970

HONORARY DIRECTOR

Herbert H. Lank
Former Director,
Chairman and President
Du Pont of Canada Limited
Appointed 30th April 1976

OFFICERS

Robert J. Richardson
Chairman

Franklin S. McCarthy
President and Chief Executive Officer

J. Edward Newall
Executive Vice-President

J. Herbert Childs
Vice-President, Corporate Development

Donald A. S. Ivison
Vice-President and Treasurer

Bertalan L. Turvolgyi
Vice-President, Operations

Colin C. Young
Vice-President and Secretary

Peter Pick
Assistant Treasurer

Thomas S. Morse
Assistant Treasurer

TO THE SHAREHOLDERS

Canada's economic growth during 1977 was disappointing. Recovery from recessionary conditions which have lingered since 1974 failed to materialize. Unemployment and inflation rates remained at disturbing levels. The volume of Canadian goods and services produced was up only two per cent, which reflected in part slow conditions in the critical manufacturing sector.

Fortunately for the Company some sectors of the economy did somewhat better. The plastics and chemical industries enjoyed above-average increases in production. The textile and clothing sectors, though held back by poor retail demand, began to benefit late in the year from the devaluation of the Canadian dollar and the government-imposed import restrictions on fabrics and garments. Automotive production enjoyed a record year because of healthy demand in the United States and Canada.

Sales revenue was $534 479 000 for the year, up 17 per cent from 1976. Export sales increased by 27 per cent during the year and accounted for about 10 per cent of manufactured sales revenue.

Significant cost reductions combined with volume gains and modestly higher prices brought improved results to the Company's Fibres Group. After incurring a substantial loss in 1976, Fibres realized a small profit in 1977. Earnings of the Chemicals Group were ahead of last year mainly due to gains made in explosives, while Plastics and Films Group earnings declined because of additional costs and higher depreciation charges arising from the expansion of facilities at St. Clair River Works.

Net income in 1977 was $7 622 000 or $0.94 per common share compared with a loss of $2 142 000 or $0.29 per share in 1976.

Construction expenditures were $16 679 000, down 75 per cent from the previous year as the Company neared the end of a $300 000 000 expansion program initiated in 1972. During 1977 the doubling of St. Clair River Works' polyethylene resin capacity was finished and at year-end the new polyester manufacturing facilities at Coteau-du-Lac were close to completion.

An additional $15 120 000 was invested in Petrosar Limited during the year bringing the total investment at year-end to $39 431 000 including accrued interest on subordinated debt. This world-scale petrochemical complex, in which the Company has a 20 per cent equity interest, came on-stream in 1977 and began supplying a wide range of products including the ethylene required by the Company's St. Clair River Works for the manufacture of "Sclair" polyethylene resins.

Dividends were paid on the Company's outstanding preferred $7\frac{1}{2}$ per cent cumulative stock at the regular quarterly rate of $0.9375 per share. Because of the low level and instability of earnings and the high level of Company borrowings no dividends on common stock were paid during the year.

Although the Canadian economy is expected to show modest growth in 1978 the business environment will remain far from satisfactory. Economists expect unemployment to persist at very high levels, inflationary pressures to remain intense, and capital investment in all but energy-related sectors, to decline in real terms.

There are some encouraging developments. The devaluation of the Canadian dollar will provide short-term relief especially for manufacturers competing with imports in the domestic market. Tax indexation and the small tax reductions that took effect early in 1978 will offer some stimulus to consumer spending. The prospect of the dismantling of wage and price controls will aid business confidence.

All this points to a slow recovery. Much stronger economic performance is needed, however, if we are to effectively utilize the new capacity in place as a result of our large expansion program of recent years. Accordingly, Company earnings and return on investment will remain at unsatisfactory levels during the year ahead.

Your Directors wish to record their appreciation of the high standards of performance maintained by employees at all locations during the past year which have resulted in significant gains in marketing performance, production efficiency and notably effective cost reductions. Of foremost importance, their commitment to and achievements under the Company's safety program have been outstanding.

On behalf of the Directors,

President and Chief Executive Officer

3rd March 1978

OPERATIONS REVIEW

To focus Company activities on meeting customers' needs, all manufacturing and marketing efforts are brought together in the Operating Department. It consists of four groups: — Manufacturing, Fibres, Plastics and Films, and Chemicals. Of the 5 000 men and women in the Department, more than 4 100 are employed in the Manufacturing Group's eight manufacturing plants. About 700 are employed in marketing the hundreds of products sold by the Company. The Department also contains several service divisions including those responsible for purchasing, plant design and construction, distribution, and advertising.

MANUFACTURING GROUP

The Company's manufacturing plants operated well throughout the year, achieving significant advances in terms of yield improvement and cost reduction. Of particular note was a major reduction in the unit manufacturing cost of nylon intermediates at Maitland Works, through more efficient use of raw materials and energy.

Du Pont of Canada has made energy conservation an essential element in its operating strategy. In 1975 the Company made a voluntary commitment to reduce its unit energy consumption by 1980 at least 20 per cent compared with 1972. Each plant has committed itself to a goal related to the corporate target and substantial progress has been made in this overall program. Between 1972 and 1977, the Company reduced energy consumed per unit of production by 15 per cent. During 1977 unit energy consumption was significantly lower than in 1976. If this improvement in energy consumption had not been achieved total energy costs in 1977 would have been $2 900 000 greater.

FIBRES GROUP

Total sales of fibre products were increased by 21 per cent over 1976 as substantial gains were made in BCF (bulked continuous filament) nylon for carpets and "Dacron" polyester filament yarn for apparel. Smaller increases were achieved in nylon for tire and industrial markets and "Lycra" spandex yarn for apparel. Demand was weak for "Orlon" acrylic fibre and textile nylon for apparel markets.

In response to urgent recommendations of the textile and clothing industries, the Canadian government took significant steps in 1976 and the first half of 1977 to restrain imports of fabrics and garments. Action followed heavy losses by manufacturers and widespread layoffs in textile and clothing plants. The government measures were effective in sharply reducing imports in 1977, compared with the previous year. Because of high inventories and sluggish retail sales, however, the benefit of the lower level of imports has been delayed and Canadian production of both apparel and fabrics in 1977 remained close to 1976 levels.

The industry continues to urge Ottawa to adopt textile trade policies more consistent with those practised by the United States and the European Economic Community. In 1977 imports captured more than 60 per cent of the Canadian market compared with less than 15 per cent in the United States and 20 per cent in Europe.

Major investments in new capacity particularly in dyeing and printing helped Canadian carpet mills improve their market share in 1977. This combined with a shift to carpet styles manufactured most efficiently from BCF yarn resulted in a substantial increase in BCF volume compared with last year. Nylon carpet staple, on the other hand, took a lower share of the Canadian carpet fibres market and prices suffered from excess capacity throughout North America.

Improvement in the domestic polyester yarn market followed imposition of dumping duties on imports of textured polyester yarns and the application of quotas to imports of apparel and double-knit fabrics. As a result, construction of the new polyester facilities at Coteau-du-Lac, near Montreal, was resumed in April 1977. The plant will produce "Dacron" polyester filament yarn for domestic and export markets. Because of the continued slow recovery in world markets for polyester yarn the start-up date for these new facilities remains indefinite.

Primarily because of the severe import penetration of markets for textile nylon, it was decided to permanently close down a significant proportion of our textile nylon capacity at Kingston Works. The gradual shutdown will be completed early in 1978 with a loss of 200 jobs to the community. Fortunately no layoff will result as attrition and the needs of other operations at the site will produce enough openings to accommodate the affected employees.

PLASTICS AND FILMS GROUP

PLASTICS

The Plastics Division increased sales of "Sclair" polyethylene resins and engineering plastics by 21 per cent. The growth in the domestic market was not as strong as in the previous year but shipments of "Sclair" resins to export markets were increased substantially. Export prices benefited from devaluation of the Canadian dollar relative to currencies in major export markets.

A highlight was the completion of a major expansion of St. Clair River Works, which doubled in capacity to 450 000 000 pounds of "Sclair" resins per year and became one of the

world's largest polyethylene plants. Cost control was well maintained throughout the four-year construction period. Products began to flow to customers from the new facilities in May and late in the year the plant began producing "Sclair" resins from ethylene received from the new Petrosar complex nearby.

POLYETHYLENE PIPE

Sales of polyethylene pipe declined in the face of reduced capital spending by mining firms and municipalities. Sales of "Sclaircor" insulated pipe — developed by the Company especially for conditions in northern Canada — experienced a substantial increase.

WOVEN POLYOLEFINS

Sales of "Fabrene" woven oriented polyolefin materials were increased significantly, especially to fabricators of lumber wraps and swimming pool covers. These gains more than made up for slower activity in mining and construction markets. Sales of "Anchor-bac" carpet backing material, a promising long-term market, also grew. There was a reduction in industry over-capacity and prices improved a little in the second half of the year.

PACKAGING

Total sales of packaging films increased by eight per cent. "Sclairfilm" polyolefin film and "Dartek" nylon film both achieved significant gains.

"Sclairfilm" strengthened its position as a leading film in many specialty applications requiring high quality performance. Milk packaging is a good example. "Sclairfilm" made major gains in Ontario and in British Columbia, where the milk pouch was widely used for the first time. It also continued to win acceptance as a component in high-performance laminated packaging structures and as an overwrapping material.

Sales of "Dartek" nylon film increased by 28 per cent, largely because of increasing penetration of specialized segments of the United States market.

The use of cellulose film continued to decline in Canada and in most other industrialized countries as lower-cost films displaced it in many applications. As a result all major producers increased their export efforts and prices deteriorated in most markets.

CHEMICALS GROUP

EXPLOSIVES

The Canadian market for explosives softened in 1977 due to slow conditions both in mining and most types of construction. An offsetting factor was a high level of activity in Hydro Quebec's complex at Baie James, where during the year the Company installed two bulk explosives plants.

Continuing improvements in the design and formulation of packaged small-diameter water-gel explosives are increasing the versatility of this relatively new product. Among new applications in 1977 was the first use of water-gel explosives in seismic work by petroleum exploration crews.

FINISHES

Total sales of finishes were substantially higher than in 1976 reflecting increased production of automobiles and greater market penetration for industrial finishes.

FLUOROCARBON PRODUCTS

The controversy about the effect of fluorocarbons on the earth's ozone shield continued to reduce sales of these products for use as propellants in aerosol packages. This decline more than offset increases in other market segments. It is expected to take several years for gains in other applications such as in blowing agents, air-conditioning and refrigeration, to make up for the loss in propellant sales.

GENERAL PRODUCTS

Total sales of this Division, which markets a wide range of products made by E. I. du Pont de Nemours & Company, increased about 15 per cent from the previous year, with significant gains made by agricultural chemicals, photo products and industrial chemicals.

PETROLEUM CHEMICALS

The market for lead-based antiknock compounds continued to decline because an increasing percentage of new cars require unleaded gasoline. This trend is expected to continue, resulting in a slowly contracting market for antiknock compounds. Prices were increased during the year to offset rising raw material costs.

CORPORATE MATTERS

EMPLOYEES

The average number of employees declined by more than four per cent during the year. In the same period the Company's sales increased by 17 per cent. This is one measure of the effective effort put forth by employees.

Another is their superlative safety performance. Only two employees suffered lost-time injuries; neither sustained a lasting disability. The significance of this is apparent when this performance is compared with the 1976 average for the North American chemical industry. If Du Pont of Canada's men and women had performed at this average level, employees would have suffered more than 40 lost-time injuries. Total lost time amounted to seven calendar days; this compares with the previous low of 95 days in 1975. This performance vividly illustrates the depth of safety commitment throughout the organization.

The Company increased its contribution to employee health insurance premiums effective 1st July 1977. Recognizing the financial pressures on pensioners during a time of severe inflation, pensions were increased effective 1st November 1977, the fifth such increase in ten years. At year-end an independent trustee held $100 526 000 in an irrevocable trust to meet future pension payments under the Company-financed plan.

MINERAL EXPLORATION

Du Pont of Canada Exploration Limited, a wholly-owned subsidiary, participated in a variety of programs with an emphasis on base metal, precious metal and uranium exploration in Western Canada. Its most significant undertaking to date is the joint exploration with Western Mines Ltd. of a large property west of Pine Point Mines in the Great Slave Lake area, Northwest Territories. A diamond drilling program in 1977 added one million tons to the indicated reserve of this deposit, which is now estimated at 3.8 million tons grading 9.1 per cent zinc and 3.3 per cent lead. A further drilling program is in progress to define the reserve further and to evaluate other areas of drill-indicated mineralization.

During the year, Lacana Mining Corporation, in which the Company has an equity interest, raised over $5 300 000 in permanent new capital through sale of common shares to the public. As a result, Du Pont of Canada's interest in Lacana was reduced from 21.4 per cent to 16.6 per cent. Lacana is participating in mining operations in Mexico producing silver, gold and lead and is also active in exploration in Canada, Mexico, Central America and the United States.

RESEARCH

The Company's technical and research resources have continued to be concentrated on programs designed to reduce costs and improve existing processes and products. These programs have resulted in significant improvements in operating efficiencies and cost savings.

ENVIRONMENTAL AFFAIRS

Knowledge concerning environmental effects of chemicals is increasing at a rapid rate. New findings have enabled the Company to take additional measures to safeguard the health of employees and to ensure a healthful environment in the vicinity of our plants.

Du Pont of Canada presented a brief on occupational health and safety to the Ontario Minister of Labour. It argued that the most efficient approach was for government to set objectives and require results in these areas, leaving industry free to devise the methods required to reach those objectives.

Expenditures to achieve practical improvements in the environment are worthwhile. The Company is concerned, however, about the overlapping jurisdictions among the various levels of government and among departments within those levels which result in confusion and duplication for both government and industry. The net result is inefficiency and excessive costs not just for industry but for all Canadian taxpayers.

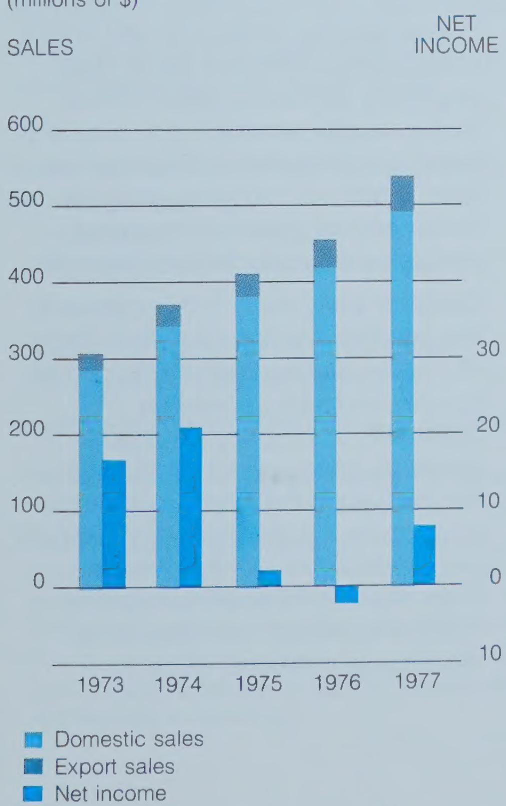
FINANCIAL REVIEW

SALES AND EARNINGS

Net sales revenue, which has been more than doubled in the past five years, amounted to $534 479 000 in 1977, up 17 per cent over the previous year. Increased shipments of most Company products along with moderately higher selling prices accounted for the growth in sales revenue. Resale products continued to represent about one quarter of total sales.

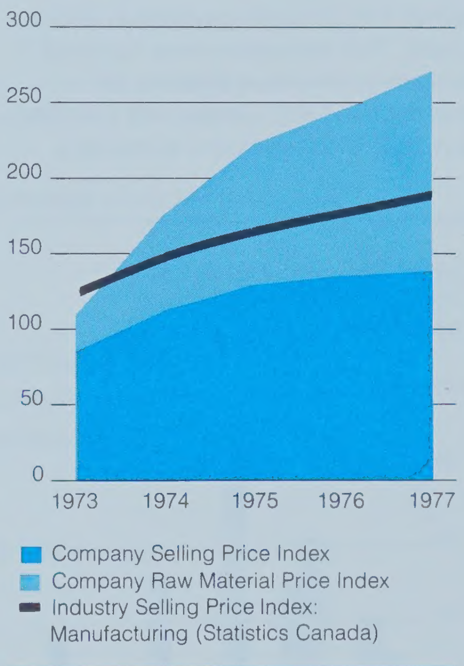
As a result of the impact of the higher volumes and selling prices combined with the effects of cost reduction programs, profit margins improved significantly. Net income was $7 622 000 or $0.94 per common share compared with a loss of $2 142 000 or $0.29 per share in 1976.

SALES AND NET INCOME
(millions of $)



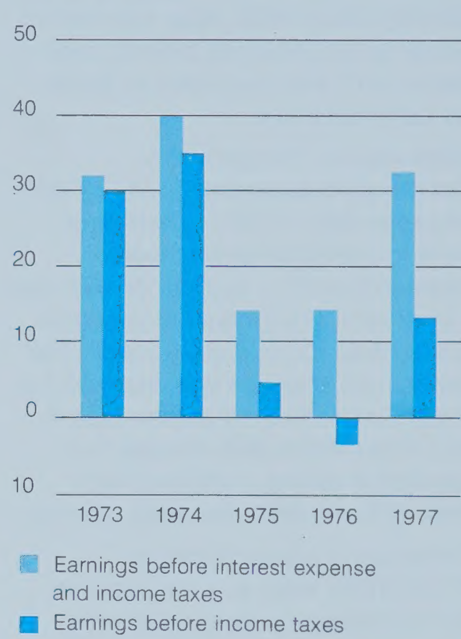
The Company's selling price index continued to lag behind the index for purchased raw materials and energy. During the past five years, the Company's Raw Material Price Index has increased by 159 per cent while the index of Company selling prices has risen by only 57 per cent.

PRICE INDICES
(1968 = 100)



Earnings before interest expense and income taxes were $32 720 000 compared with $13 548 000 in 1976. Selling, general and administrative expenses increased five per cent during the year and were nine per cent of net sales compared with 10 per cent in 1976. Interest expense at $19 421 000 rose $2 870 000 over the previous year reflecting an increased level of short-term borrowings in 1977.

EARNINGS BEFORE INTEREST EXPENSE AND INCOME TAXES
(millions of $)



FINANCING AND WORKING CAPITAL

Cash flow from operations amounted to $38 516 000 in 1977 compared with $20 030 000 in 1976. After payment of dividends on preferred shares, cash flow in 1977 was equivalent to $4.86 per common share.

There was no change in the Company's outstanding $154 517 000 long-term debt in 1977. Short-term loans in Canadian dollars were obtained from E. I. du Pont de Nemours & Company throughout the year and totalled $60 000 000 at year-end. The interest rate charged on these loans is related to commercial paper rates in the United States and resulted in a substantial saving compared with costs of funds from domestic sources.

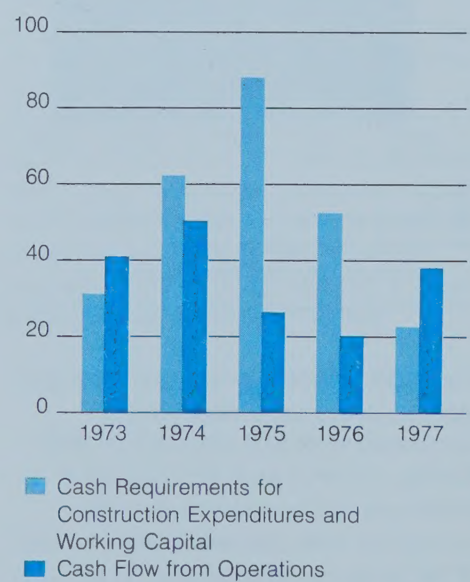
Construction expenditures of $16 679 000 were at a six-year low, and consisted mainly of payments made in connection with the St. Clair River Works expansion program and construction of the new polyester facilities at Coteau-du-Lac, Quebec. The unexpended balance of authorized projects amounted to $8 722 000 at year-end.

The Petrosar petrochemical complex came on-stream in late 1977. Du Pont's investment in this project, whose total assets exceed $700 000 000, was $39 431 000 at year-end, consisting of $10 000 000 in common shares for a 20 per cent equity interest, and the balance in subordinated debentures and related accrued interest. Early in 1978 our investment in subordinated debentures was converted into preferred shares, subordinated to a similar form of investment being made by Petrosar's bankers who have provided the bulk of the financing for this project.

Working capital amounting to $39 004 000 at 31st December 1977 was up $6 218 000 due to the greater investment in accounts receivable and inventories required to finance the higher level of sales in 1977.

As a result of income tax reassessments covering the nine-year period 1968 to 1976, $4 393 000 has been charged against retained earnings as an adjustment to those prior periods. Of this amount, $3 357 000 represents the amount of taxes that became payable in 1977 while the balance of $1 036 000 represents deferred income taxes which will become payable in future years. The reassessments followed a review by Revenue Canada of transactions with Cedarcrest Company Limited, a non-resident subsidiary.

CASH REQUIREMENTS AND CASH GENERATION
(millions of $)



INFLATION AND FINANCIAL RESULTS

Du Pont of Canada's experience during the past several years of inflation illustrates the severe problems presented to the corporate sector by rapidly rising prices in the economy. Capital costs of new construction have been far higher than in the past, and the depreciation recorded in the accounts over the years has not included provision for such inflationary trends. Escalating costs of raw materials, energy and labour have meant substantial increases in working capital requirements as inventories have been replaced. Neither of these effects is adequately disclosed under generally accepted accounting principles, which rely on historic costs to determine income. Some of the results of inflation, in terms of ever-growing cash requirements, are seen in the rapid growth of the Company's borrowings.

The accounting profession and others, including governments, have been grappling with the question of how best to modify accounting to deal with these problems. While progress has been made, no consensus has yet developed on generally accepted principles of accounting for inflation.

Certainly a key issue in this debate is the need for disclosure of the effects of inflation on financial results, namely the degree to which inflation constrains a company's ability to generate adequate funds to replace its plant, equipment and inventories, and remain a viable operation. Recent recommendations of the Ontario Committee on Inflation Accounting made a significant contribution to developing a common form of

expression for these effects. The Committee has recommended that companies provide supplementary information which identifies, for a particular year, the results of operations in terms of the funds available for distribution to shareholders or expansion of productive capacity, allowing for current replacement costs.

The following table shows that virtually all the funds generated by the Company from its operations are required to maintain the asset base in order to protect the earning power of the Company. Such information is inherently imprecise, and naturally should be used by readers with great care. However, the table illustrates, albeit imperfectly, that earnings and funds flow figures — determined on a historical cost basis — may greatly over-state the real resources available to support dividend payments and expansion.

STATEMENT OF EFFECTS OF INFLATION ON FUNDS AVAILABLE FOR DISTRIBUTION OR EXPANSION
(Dollars in millions) Unaudited

		1977
Funds generated from operations (see Consolidated Statement of Changes in Financial Position, page 11)		$38
Funds required to finance original cost of productive assets (historical cost depreciation)		26
		12
Funds required to finance increased cost of maintaining operating capacity		
Inventories*	$ 5	
Plant, machinery, and equipment**	12	
	17	
Less: Additional funds which may be available from borrowings***	8	9
Funds available for distribution or expansion		$ 3

*The increased cost of replacing inventories ($5 million) represents the difference between the historical cost and the estimated current cost of goods sold at the date of sale.

**The increased cost of maintaining the operating capacity of productive assets ($12 million) represents the difference between the depreciation taken in the accounts and depreciation for the year determined after applying indices to arrive at current cost of the assets, using the business investment component of the Gross National Expenditure Implicit Price Index.

***The extent to which additional funds may be obtained from borrowings ($8 million) is based on the ratio of equity to non-equity capital at the beginning of the accounting period on the assumption that this ratio is maintained.

DU PONT OF CANADA LIMITED

CONSOLIDATED STATEMENT OF INCOME

(Dollars in thousands except per common share)

	Year Ended 31st December 1977	1976 (Restated)
NET SALES (Note 2)	$534 479	$458 051
Other income	3 073	781
	537 552	458 832
LESS:		
Costs and expenses before the following:	428 378	375 332
Provision for depreciation of plants and properties	26 243	22 264
Amortization of patents and processes	228	225
Adjustment to carrying value of mining ventures	1 323	982
Selling, general and administrative expenses	48 660	46 481
Interest on debt issued for terms in excess of one year (Note 4)	15 186	13 560
Interest on other indebtedness	4 235	2 991
	524 253	461 835
EARNINGS (LOSS) BEFORE INCOME TAXES	13 299	(3 003)
Less: Income taxes	5 677	(861)
NET INCOME (LOSS)	$ 7 622	$ (2 142)
EARNINGS (LOSS) PER COMMON SHARE	$0.94	$(0.29)

DU PONT OF CANADA LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(Dollars in thousands)

	Year Ended 31st December 1977	1976 (Restated)
SOURCE OF FUNDS		
From operations		
Net income (loss)	$ 7 622	$ (2 142)
Adjustment for items not requiring outlay of funds:		
Depreciation and amortization	26 471	22 489
Adjustment to carrying value of mining ventures	1 323	982
Deferred income taxes	5 662	(910)
Accrued interest income on loan to Petrosar	(2 562)	(389)
	38 516	20 030
Long-term debt	—	50 000
	38 516	70 030
USE OF FUNDS		
Additions to plants and properties	16 679	65 793
Investments and advances	15 445	15 411
Dividends	174	1 752
	32 298	82 956
Increase (decrease) in working capital for the year	6 218	(12 926)
Working capital at beginning of year:		
As previously reported	36 143	49 069
Adjustment of prior years' income taxes	(3 357)	(3 357)
As restated	32 786	45 712
Working capital at end of year	$ 39 004	$ 32 786

DU PONT OF CANADA LIMITED

CONSOLIDATED BALANCE SHEET

(Dollars in thousands)

	31st December 1977	31st December 1976 (Restated)
ASSETS		
Current Assets		
Cash	$ 2 731	$ 6 564
Accounts receivable:		
Affiliated companies	3 366	2 579
Income taxes recoverable	667	274
Other	83 590	64 131
Inventories:		
Finished goods and work in process	47 679	40 987
Raw materials and supplies	21 362	17 956
Prepaid expenses	2 149	1 133
	161 544	133 624
Plants and Properties (Note 5)	527 898	521 023
Less: Accumulated Depreciation	243 496	227 057
	284 402	293 966
Other Assets		
Petrosar Limited (Note 6)	39 431	21 749
Mining ventures (Note 7)	4 671	4 923
Goodwill, patents and processes	3 872	4 100
Unamortized portion of long-term debt expenses	1 701	1 984
Sundry	1 565	2 028
	51 240	34 784
	$497 186	$462 374

Signed on behalf of the Board:

A. J. de Grandpré
F. S. McCarthy } Directors

	31st December 1977	1976 (Restated)
LIABILITIES		
Current Liabilities		
Short-term indebtedness:		
E. I. du Pont de Nemours & Company	$ 60 000	$ 45 000
Bank and other	10 348	7 852
Accounts payable and accrued liabilities:		
E. I. du Pont de Nemours & Company	16 311	10 554
Other	32 410	32 701
Taxes payable	3 428	4 688
Dividends payable	43	43
	122 540	100 838
Long-Term Debt (Note 8)	154 517	154 517
Deferred Income Taxes	47 005	41 343
SHAREHOLDERS' EQUITY		
Capital stock		
Preferred 7 1/2% cumulative stock, par value $50		
Authorized, issued and fully paid — 46 500 shares	2 325	2 325
Common stock, no par value		
Authorized — 13 500 000 shares		
Issued and fully paid — 7 886 298 shares	40 031	40 031
Retained earnings	130 768	123 320
	173 124	165 676
	$497 186	$462 374

DU PONT OF CANADA LIMITED

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

(Dollars in thousands)

	1977	1976 (Restated)
BALANCE AT BEGINNING OF YEAR		
As previously reported	$127 713	$131 541
Adjustment of prior years' income taxes (Note 11)	(4 393)	(4 327)
As restated	123 320	127 214
Add (deduct): Net income (loss)	7 622	(2 142)
	130 942	125 072
Less: Dividends declared on —		
Preferred 7 1/2% cumulative stock	174	174
Common stock ($0.20 per share in 1976)	—	1 578
	174	1 752
BALANCE AT END OF YEAR	$130 768	$123 320

AUDITORS' REPORT

The Shareholders
Du Pont of Canada Limited

We have examined the consolidated balance sheet of Du Pont of Canada Limited as at 31st December 1977 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at 31st December 1977 and the results of its operations and changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Montreal, Quebec
3rd March 1978

Touche Ross & Co.
Chartered Accountants

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

Du Pont of Canada Limited is incorporated under the laws of Canada and the consolidated financial statements, based on historic cost, are drawn up in conformity with the provisions of the Canada Corporations Act. Subsidiary companies are all wholly owned and only Cedarcrest Company Limited and Du Pont of Canada Exploration Limited are active. Mining ventures are valued at cost adjusted for write-offs and amortization of exploration expenditures. The investment in Petrosar Limited is being carried at cost.

Translation of Foreign Currencies

Net current assets in foreign currencies are translated into Canadian dollars at rates in effect at the end of each year. Other assets and liabilities and income and expense items are translated at the rates prevailing on transaction dates.

Inventories

Inventories are valued at the lower of average cost and net realizable value.

Plants and Properties and Related Depreciation

Plants and properties are carried at cost. Pre-production expenses and interest on borrowed money incurred in connection with new production facilities are not capitalized, but are charged to expense as incurred.

Depreciation is provided based on the average useful life of the assets. Using the diminishing balance method, rates of 12% or 10% are applied to the net investment at each plant site, provided that amounts set aside in the accounts are not less than 5% of the original cost. Thus the provision for depreciation is higher in the early life of the assets when the risk is greatest. The relatively small investments in other properties are depreciated at various rates. Generally, depreciation is not charged on new assets until they become operative. When assets are retired, sold or otherwise disposed of, the gross book value and dismantling costs are charged to accumulated depreciation; any recovery is credited to accumulated depreciation.

Goodwill, Patents and Processes

Goodwill was acquired prior to 1974 and is not amortized. Purchased patents and processes are amortized over their economic life.

Research and Development

Research and development expenditures are charged against current year's income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — Restatement

The 1976 statements have been restated to reflect a prior period adjustment relating to income tax assessments (Note 11) and the inclusion of accumulated interest on the subordinated debt of Petrosar Limited as part of the investment in that company (Note 6) rather than as a Sundry asset.

Note 2 — Net Sales

The composition of net sales is as follows:

	1977	1976
	(Dollars in thousands)	
Fibres	$186 836	$154 660
Plastics and Films	174 010	150 065
Chemicals and Other	173 633	153 326
	$534 479	$458 051

Note 3 — Remuneration of Directors and Officers

During 1977, the remuneration paid to the ten directors aggregated $52 000 and paid to the ten officers (including one past officer) aggregated $852 000. Four of these officers were also directors.

Note 4 — Interest on Borrowed Money

In connection with the construction of a new facility, a provincial government agency has agreed to contribute to interest costs to a maximum of $4 000 000 of which $960 000 has been credited to interest expense in 1977 ($2 122 000 in 1976; $918 000 in 1975).

Note 5 — Plants and Properties

	1977	1976
	(Dollars in thousands)	
Buildings and equipment and other facilities	$455 702	$400 086
Construction in progress	67 646	116 367
Land	4 550	4 570
	$527 898	$521 023

At 31st December 1977, there remained $8 722 000 to be expended on authorized appropriations for capital expenditures.

Note 6 — Petrosar Limited

The Company has a 20% equity interest in Petrosar Limited, which was incorporated to construct and operate a world-scale petrochemical complex near Sarnia, Ontario. The other shareholders are Polysar Limited which, together with the Canada Development Corporation, holds a 60% equity interest, and Union Carbide Canada Limited which holds a 20% equity interest. Production of chemical products began late in 1977.

At year-end the Company's investment in Petrosar Limited consisted of:

	1977	1976
	(Dollars in thousands)	
Common shares	$10 000	$10 000
Subordinated debt	26 480	11 360
Accumulated interest on subordinated debt	2 951	389
	$39 431	$21 749

Under the various agreements with the consortium of Canadian banks and others who have assisted in the financing of Petrosar, the Company is committed to provide directly or indirectly 21.6% of any deficiency of funds required by Petrosar Limited to meet its debt obligations or working capital maintenance covenants. In addition, the Company has committed under firm long-term contracts to purchase ethylene and other chemicals from Petrosar or otherwise indemnify that company.

On 24th February 1978, Petrosar Limited refinanced its bank term loans and customer prepayments by the issue to the banks of $445 000 000 Class A Redeemable Preferred Shares. At the same time, the shareholders converted their holdings of Petrosar's subordinated debt and the related accrued interest into Class C Redeemable Preferred Shares. In addition, the shareholders invested a further $20 000 000 (the Company's share of which was $4 320 000) by purchasing Class B Redeemable Preferred Shares. The Class B and Class C Preferred Shares are subordinated as to principal and dividends to the Class A Preferred Shares. The Company's investment as at 24th February 1978 consisted of:

Common shares	$10 000 000
Class B preferred shares	4 320 000
Class C preferred shares	29 710 000
	$44 030 000

The refinancing has not altered the Company's commitments to Petrosar Limited in relation to any deficiency of funds or long-term purchase contracts.

Note 7 — Mining Ventures

	1977	1976
	(Dollars in thousands)	
Investments in and advances to mining companies (at cost less amounts written off)		
—Lacana Mining Corporation	$3 591	$3 591
—Ducanex Resources Limited	36	63
Expenditures on direct participation in other mining ventures (net of accumulated amortization 1977 — $3 890 000; 1976 — $2 567 000)	1 044	1 269
	$4 671	$4 923

The Company's investment in Lacana Mining Corporation, consisting of 16.6% of the common shares now issued, has a market value of $3 960 000 based on the last transaction price on The Toronto Stock Exchange on 30th December 1977. During 1977, Lacana sold to others 1 500 000 common shares and used a portion of the proceeds to reduce its bank term loan. The Company's previous obligation as a lender or guarantor under the Debt Support Agreement has been terminated. However, the Company has guaranteed payment up to $3 000 000 if Lacana is unable to repay its bank term loan on maturity if such inability results from expropriation or legislated sale or a similar event affecting its Mexican interests.

Ducanex Resources Limited is a private company owned jointly by the Company and Lacana Mining Corporation.

Expenditures on direct participation in other mining ventures reflect exploration activities by Du Pont of Canada Exploration Limited and by a joint venture with Lacana.

Note 8 — Long-Term Debt

	1977	1976
	(Dollars in thousands)	
8% note — U.S. $5 000 000 due 1st February 1979	$ 4 852	$ 4 852
$10^3/_8$% notes — U.S. $25 000 000 due 15th November 1979	24 665	24 665
$9^1/_2$% notes due 15th February 1981	50 000	50 000
$10^1/_2$% Sinking Fund Debentures due 1st May 1995	75 000	75 000
	$154 517	$154 517

If the debt payable in U.S. funds had been converted at rates in effect on 31st December, the liability in Canadian dollars would have been $32 844 000 in 1977 and $30 264 000 in 1976.

Sinking fund provisions of the debentures require the Company to make payments to the trustee sufficient to retire $3 000 000 principal amount on 1st May in each of the years 1980 to 1994 inclusive.

Note 9 — Pension Liabilities

The amount held by the independent trustee as of 31st December 1977 to pay pensions exceeded the actuarially determined value of pensions earned to that date based on accrued service and remuneration.

The last formal actuarial evaluation of the Company's non-contributory Pension Plan was made as of 31st December 1976 and disclosed a projected unfunded past service liability of $16 300 000 reflecting plan improvements in 1974 and an increase in benefits allowed to existing pensioners in 1975. In 1977, a further increase in benefits to existing pensioners created an additional unfunded liability of $2 200 000. These liabilities are being amortized by annual payments over periods not exceeding 15 years as recommended by the Company's consulting actuary and as permitted by the Pension Benefits Act of the Province of Ontario.

Note 10 — Pending Legal Proceedings

There are pending against the Company various lawsuits and claims. It is the opinion of Company counsel that the ultimate liability, if any, resulting from such lawsuits and claims, will not materially affect the financial position of the Company.

Note 11 — Income Taxes

a) As a result of income tax reassessments for the years 1968 to 1976 inclusive following a review by Revenue Canada of transactions with Cedarcrest Company Limited, a non-resident subsidiary, the balance of retained earnings as at 31st December 1976 has been restated to show a retroactive charge of $4 393 000, representing the cumulative amount by which federal and provincial income taxes had been increased. Of this amount, $66 000 is applicable to 1976 and income for that year has been restated. The remaining $4 327 000 applies to years prior to 1976 and has been applied against the opening balance of retained earnings in 1976. The figures reported as at 31st December 1976 for income taxes recoverable, taxes payable, and deferred income taxes have also been restated because of this retroactive adjustment.

b) As the Company does not have sufficient taxable income, it has not claimed the full 5% federal Investment Tax Credit applicable to qualified assets acquired since 23rd June 1975, nor has it reflected the potential benefits in the accounts. The tax credits do not fully expire until 1982 and will be claimed against future taxable income; the benefits, which amount to approximately $3 500 000, will be recorded in the financial statements at that time.

Note 12 — Anti-Inflation Act

The Company is subject to the anti-inflation legislation which became effective 14th October 1975 and limits increases in selling prices, remuneration, net earnings and dividend payments. It is management's opinion that the legislation has been adhered to from the effective date.

TEN-YEAR COMPARISON

Restated (1)

	1977	1976
Operating Results		
Results per common share		
Total earnings (loss)	$0.94	$(0.29)
Funds from operations	$4.86	$2.52
Dividends	—	$0.20
Sales and other income	537 552	458 832
Costs and expenses before the following:	477 038	421 813
Provision for depreciation, amortization and other (2)	27 794	23 471
Interest on borrowed money	19 421	16 551
Taxes on income	5 677	(861)
Extraordinary items	—	—
Net income (loss)	7 622	(2 142)
Per cent return on:		
Average total investment (3)	2.6	1.1
Average shareholders' equity	4.4	—
Financial Position		
Total current assets	161 544	133 624
Total current liabilities	122 540	100 838
Net working capital	39 004	32 786
Plants and properties at cost	527 898	521 023
Accumulated depreciation	243 496	227 057
Plants and properties — net	284 402	293 966
Other assets	51 240	34 784
Long-term debt	154 517	154 517
Deferred income taxes	47 005	41 343
Shareholders' equity	173 124	165 676
General		
Company selling price index —manufactured products (1968 = 100)	137	132
Construction expenditures	16 679	65 793
Average total investment (4)	714 239	657 197
Shareholders' equity per common share	$21.66	$20.71
Average number of employees	5 473	5 713
Average total investment per employee	130.5	115.0

(1) Restated to reflect adjustments relating to income tax assessments for 1968-1976 inclusive. (See Note 11 to Consolidated Financial Statements).

(2) Includes adjustment to the carrying value of mining ventures beginning in 1972.

(3) Based on net income before interest expense.

(4) Total investment is based on total assets before deducting accumulated depreciation; the average is based on the investment of each calendar month.

(Amounts in thousands of dollars except where otherwise noted)

1975	1974	1973	1972	1971	1970	1969	1968
$0.23	$2.62	$2.17	$1.72	$1.32	$0.63	$1.99	$1.43
$3.32	$6.22	$5.14	$3.94	$3.21	$2.58	$3.82	$3.29
$0.50	$1.00	$0.95	$0.85	$0.625	$0.75	$1.00	$1.00
410 810	369 025	307 954	260 737	228 333	211 398	228 532	207 923
376 854	311 681	258 913	218 384	190 810	184 682	184 999	167 270
19 862	17 726	16 766	16 385	15 673	15 357	15 636	15 335
10 217	4 658	2 160	629	1 058	2 635	1 315	1 163
557	15 157	12 847	11 609	10 184	3 561	13 517	12 201
1 295	(994)	—	—	—	—	(2 785)	491
2 025	20 797	17 268	13 730	10 608	5 163	15 850	11 463
1.4	5.0	4.6	3.9	3.2	1.9	5.1	3.9
1.2	12.2	11.0	9.2	7.6	3.7	11.7	8.9
139 024	124 837	91 768	83 294	68 583	74 114	70 770	63 587
93 312	80 841	55 594	35 566	32 995	46 806	43 723	42 580
45 712	43 996	36 174	47 728	35 588	27 308	27 047	21 007
458 592	375 610	333 293	292 891	275 532	272 313	262 347	248 956
208 155	191 758	183 511	170 291	158 000	146 389	133 936	121 148
250 437	183 852	149 782	122 600	117 532	125 924	128 411	127 808
20 191	12 844	11 235	10 604	9 822	5 035	3 739	3 794
104 517	29 517	10 000	10 000	—	—	—	—
42 253	39 513	28 266	21 608	20 471	21 301	21 305	22 506
169 570	171 662	158 925	149 324	142 471	136 966	137 892	130 103
125	111	89	87	89	94	97	100
87 542	53 177	42 948	20 360	7 504	12 867	16 216	11 967
546 238	465 738	402 816	362 321	347 829	344 881	324 723	311 469
$21.21	$21.47	$19.86	$18.64	$17.77	$17.07	$17.19	$16.20
5 734	5 746	5 538	5 113	5 158	6 311	6 562	6 303
95.3	81.1	72.7	70.9	67.4	54.6	49.5	49.4

PRODUCTS LISTING

FIBRES

MANUFACTURED:

Nylon continuous filament yarns, staple, tow and bulked continuous filament yarns

†*ANTRON nylon for textiles and carpets*

†*ORLON acrylic fibre, staple and tow*

†*LYCRA spandex fibre*

†*DACRON polyester filament yarn*

†*HYTEN wrapped filament yarn*

•*FIBRELOFT synthetic discontinuous filaments*

RESALE:

**NOMEX high temperature resistant nylon*

**TEFLON fluorocarbon fibre*

**DACRON polyester staple*

**KEVLAR aramid fibre*

**CORDURA yarn*

PLASTICS AND FILMS

MANUFACTURED:

•*CELLOPHANE cellulose film*

•*SCLAIRFILM and •SUPERLAM polyolefin film*

•*DARTEK nylon film*

•*FABRENE woven oriented polyolefin material*

•*PERFIL fibrillated polyolefin tape*

•*ANCHOR-BAC woven oriented polyolefin carpet backing*

†*VEXAR plastic netting*

Nylon monofilament

•*SCLAIR polyethylene resins*

†*ZYTEL nylon resins*

•*SCLAIRPIPE polyethylene pipe*

†*ALDYL polyethylene piping systems*

•*SCLAIRCOR pre-insulated piping systems*

RESALE:

**MYLAR polyester film*

**KAPTON polyimide film*

**TYPAR spunbonded polypropylene carpet backing*

Liquid packaging machines

Plastic materials for molding and extrusion including:

- †*ALATHON polyolefin resins*
- **DELRIN acetal resins*
- **LUCITE acrylic resins*
- **MINLON mineral reinforced polymers*
- **SURLYN ionomer resins*
- **TEFLON fluorocarbon resins*

Polymers for adhesives and coatings including:

- **ELVACE polymer emulsions*
- **ELVACITE acrylic resins*
- **ELVAMIDE nylon resins*
- **ELVANOL polyvinyl alcohol*
- **ELVAX vinyl resins*

†*DYMETROL nylon strapping*

†*STREN nylon fishing line*

**BUTACITE polyvinyl butyral sheet for safety glass*

**VESPEL precision parts from polyimide resins*

CHEMICALS AND OTHER PRODUCTS

MANUFACTURED:

†*FREON fluorocarbon refrigerants, aerosol propellants, industrial solvents, blowing agents and fire extinguishing agents*

†*DYTEL leak detectives*

Antiknock compounds and other petroleum additives

†*VALCLENE dry-cleaning fluid*

†*ALBONE hydrogen peroxide*

Protective and decorative finishes for automotive and industrial uses including:

- •*DULUX enamels*
- †*LUCITE acrylic lacquer*
- **SILVERSTONE non-stick finishes*
- †*TEFLON non-stick finishes*

Commercial explosives including:

- †*TOVEX water gels*
- †*NILITE and †TOVITE blasting agents, and • COR-DET primers*

Hydrochloric and nitric acids

RESALE:

Ammonium nitrate prills and blasting accessories; dynamites

* *DETAPRIME primers*

* *FASLOC resin-anchored bolting systems*

* *CYREL, *DYCRIL and *LYDEL photopolymer printing plates and equipment*

* *CROMALIN photopolymer film, toners and equipment*

X-ray, graphic arts, engineering reproduction and drafting films, and equipment

*Electronic products — *RISTON photopolymer film resists and equipment, precious metal preparations, and Berg interconnectors*

Scientific and Process Instruments, Automatic Clinical Analyzer

*Neoprene, *NORDEL, *HYPALON, *ADIPRENE and *VITON synthetic rubbers*

Weed killers, plant fungicides, insecticides, and nitrogen fertilizer ingredients

Pigments

Dyes and organic chemicals

**ZEPEL rain and stain repeller and carpet protector*

**REEMAY spunbonded polyester, *TYVEK spunbonded olefin and *TYPAR spunbonded polypropylene*

†*ECONO-CHROME chrome plating compound*

Industrial chemicals and electroplating products

†*IMRON polyurethane finishes*

†*CENTARI acrylic enamel*

**DEXLAR flexible acrylic enamel*

**ZELCON fabric conditioner*

TRADE MARK IDENTIFICATION

† Trade Mark of E. I. du Pont de Nemours & Company under which Du Pont of Canada Limited is a Registered User.

* Trade Mark of E. I. du Pont de Nemours & Company.

• Trade Mark of Du Pont of Canada Limited.

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Corunna, Ontario N0N 1G0

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STOCK LISTINGS

Common Stock —
Montreal Stock Exchange
Toronto Stock Exchange

Preferred Stock —
Montreal Stock Exchange

STOCK TRANSFER AGENT AND REGISTRAR

Montreal Trust Company
Montreal, Toronto, Calgary and Vancouver

DEBENTURE TRANSFER AGENT AND REGISTRAR

The Royal Trust Company
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